How much has been erased from U.S. technology shares since they peaked at the start of March? An amount almost equal to the estimated value of a company that is getting ready to enter the market: Alibaba Group Holding Inc.

While probably a coincidence, it’s one that illustrates a concern for investors in some industries. With buybacks leveling off, equity offerings are on pace for the busiest year in a decade as companies from Alibaba to King Digital Entertainment Plc (KING) sell in a market where prices are 20 percent above the 2007 level. In other words, patterns are in place that may result in an oversupply of stock and an undersupply of owners.

The deluge is still a ways off. Squeezed by share repurchases, the net supply of equities fell by $837.5 billion from March 2010 through the end of last year, according to data from Venice, Florida-based Ned Davis Research Inc. But just as individuals return to stocks after missing most of the bull market, concern is growing that IPOs will spur a glut of shares in the fastest-growing industries.

“Although it’s true for the level of the overall market that supply is not a problem, I do think that in a particular portion of technology, supply is really being quite concentrated,” Michael Shaoul, who oversees more than $20 billion as chief executive officer at Marketfield Asset Management LLC in New York, said by phone on May 2. “It’s certainly possible that you can overwhelm the overall demand of the market for a particular sector.”

New Offerings

New share offerings totaled $87 billion in the first four months of 2014, about the same as the year-earlier period, according to Sausalito, California-based TrimTabs Investment Research Inc. At the same time, share buying announced by corporations, which has offset the equity created by IPOs, totaled about $255 billion in the first four months, compared with $355 billion a year ago.

While the Dow Jones Industrial Average reached a record last week and the Standard & Poor’s 500 Index briefly eclipsed one, the Nasdaq 100 remains 3.7 percent below its 14-year high on March 5. About $150 billion has been erased from the gauge as investors sold last year’s winners such as Facebook Inc. and Netflix Inc. (NFLX), according to data compiled by Bloomberg.

Alibaba, China’s largest e-commerce company, is planning what could be the biggest U.S. public
debuted ever, with a market value that may exceed 95 percent of the S&P 500. The Hangzhou, China-based firm is worth about $168 billion, according to the average estimate of 12 analysts surveyed by Bloomberg News last month, though the IPO will raise much less.

**Embracing Capital**

Chief executive officers are taking advantage of record prices to raise money and do takeovers after the bull market entered its sixth year. Shares have been buoyed by three rounds of monetary stimulus from the Federal Reserve and corporate buybacks that amounted to $1.7 trillion since the market’s bottom in 2009.

“Companies seem to be rebounding, re-embracing capital markets,” Kristina Hooper, a U.S. investment strategist at Allianz Global Investors in New York, said in a phone interview on April 30. The firm oversees $475 billion. “There is risk involved, and it could be aggravated by the fact that this happens fairly quickly.”

The value of takeovers announced in 2014 hit $1 trillion on April 28, reaching the level at the fastest pace in seven years.

More than 180 companies announced initial public offerings from January through April while Nielsen Holdings NV and FireEye Inc. (FEYE) are among 317 firms selling additional shares, according to data compiled by Bloomberg. Should the pace be sustained, it would make 2014 the busiest year since at least 2002, data compiled by Bloomberg show.

**IPO Supply**

The increased deal making “is emblematic of confidence,” Joseph Quinlan, the chief market strategist at Bank of America Corp.’s U.S. Trust, which oversees about $378 billion, said by phone from New York on May 1. “There is a lot of search for good company stories. If an IPO can bring that to the market and investors feel that way, then the supply will be consumed.”

The biggest IPOs have coincided with periods of weakness in the U.S. stock market over the last six years, coincidentally or not. In May 2012, when Facebook carried out the largest offering by a technology company, the S&P 500 (SPX) dropped 6.3 percent for the worst retreat in eight months.

The S&P 500 fell 0.2 percent in November 2010 amid General Motors Co.’s $18 billion share sale. The market fared worse when Visa (V) Inc. raised $20 billion in March 2008 for the largest American IPO. The benchmark index slid 0.6 percent that month.

**Liquidity Squeeze**

“Most money managers are generally fully invested and so one of the issues is that for these mega ones, the buy side has to free up some liquidity to buy the new IPO,” Skip Aylesworth, a portfolio manager for Hennessy Funds in Boston, said by phone on May 1. The firm oversees about $5 billion.
“This is the only tech name you’ve got to own,” he said. “The hype will be for the individual guys to buy. If it doesn’t do well, what happens is it just kills the enthusiasm for IPOs.”

While companies such as Alibaba and King Digital are embracing capital raising, Apple Inc. and Wells Fargo & Co. are boosting buybacks after hoarding cash for five years.

Share repurchases among S&P 500 companies increased 19 percent to $475.6 billion in 2013, the second highest on record, according to data compiled by S&P. Cash at companies excluding banks and utilities reached an all-time high of $1.3 trillion in the fourth quarter, the data showed.

Individuals, who withdrew about $260 billion during the four years through 2012, are returning to equities after watching the S&P 500 more than double in an advance that surpassed the five-year climb that sent the index to a record in October 2007. Mutual funds that buy American equity took in about $18 billion in 2013, according to data from the Investment Company Institute. Exchange-traded funds received almost $140 billion, data compiled by Bloomberg show.

Mitigating Factor

“Investors are getting off the sideline and into the equity market,” Randy Bateman, who oversees $4 billion as chief investment officer of Huntington Asset Advisors in Columbus, Ohio, said by phone on May 1. “If you get a shrinking supply and demand stays the same or gets bigger, what’s the mitigating factor? It’s price, and price is going to go up.”

Investors have turned sour on IPOs as a drop in risk appetite spurred a shift out of Internet and biotechnology stocks that led the S&P 500 to its best yearly performance since 1997.

The Bloomberg IPO Index has lost 8 percent from its March high. King Digital, the maker of the Candy Crush smartphone game, has tumbled 22 percent since raising $500 million in March. Concert Pharmaceuticals Inc., a biotechnology company that went public in February, has slipped 33 percent.

Internet, Biotech

Nasdaq indexes of Internet and biotech companies had slumped more than 19 percent from their peaks this year. By contrast, utilities, with earnings less tied to economic swings and a dividend yield that beat all but one of the 10 S&P 500 groups, have performed the best, rallying 12 percent in 2014.

Facebook (FB), trading at 42 times estimated profit, has spent $21 billion since February to acquire virtual reality and messaging technology, both times using shares that are more expensive than 96 percent of those in the S&P 500.

The Menlo Park, California-based social-networking service is among almost 1,000 companies that went public since 2012. The stock has dropped 16 percent from its March peak, trimming its gain for the year to 11 percent.
“The IPO calendar will continue to build to feed those rejuvenated animal spirits,” Howard Ward, chief investment officer for growth equity at Rye, New York-based Gamco Investors Inc., said in an interview on April 30. His firm oversees about $47 billion. “Enjoy it while it lasts.”

To contact the reporter on this story: Lu Wang in New York at lwang8@bloomberg.net

To contact the editors responsible for this story: Lynn Thomasson at lthomasson@bloomberg.net

Chris Nagi